

Message Text

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PAGE 01 BRASIL 02285 241301Z
ACTION EB-08

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 720
INFO AMCONSUL RIO DE JANEIRO
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E.O. 11652: N/A
TAGS: BEXP, EAIR, BR
SUBJ: VARIG'S 1976 PERFORMANCE AND AIRCRAFT, PURCHASE PLANS

1. CONGEN RIO OFFICER ACCOMPANYING VISITING EXIM BANK TEAM CALLED ON JOAO A. LORENZ, DIRECTOR, ECONOMIC PLANNING, VARIG, BRAZILIAN AIRLINES. DURING COURSE OF ONE-AND-ONE-HALF HOUR REVIEW OF VARIG'S 1976 OPERATIONS AND ITS FUTURE PLANS AND PROJECTIONS, LORENZ # ROVO ITEMS OF SPECIAL INTEREST. FIRST, HE GAVE US DATA ON ALL BRAZILIAN AIRLINES' OPERATIONAL RESULTS FOR 1976 AND, SECOND, HE DISCUSSED VARIG'S TENTATIVE AIRCRAFT PURCHASE PLANS.

2. 1976 WAS A GOOD YEAR FOR VARIG. ITS AFTER-TAX PROFITS WERE EQUIVALENT TO DOLS 32 MILLION DESPITE DECREASE IN INTERNATIONAL REVENUE-PASSENGER-KILOMETERS (RPK) OF 2.4 PERCENT. LORENZ EXPLAINED EXCELLENT 1976 PROFITS IN TWO WAYS. FIRST, RELATIVELY UNPROFITABLE INTERNATIONAL FLIGHTS WERE REDUCED, AFTER IMPOSITION OF 12,000-CRUZEIRO TRAVEL DEPOSIT IN JUNE 1976. THIS REDUCTION IN THE NUMBER OF INTERNATIONAL FLIGHTS FREED MORE AIRCRAFT FOR RAPIDLY GROWING AND RELATIVELY MORE LUCRATIVE DOMESTIC MARKET (VARIG'S DOMESTIC LOAD FACTOR WAS 61 PERCENT IN 1976). IN
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ADDITION, VARIG WAS ABLE TO RENT, ON SHORT-TERM BASIS, UNDER-UTILIZED AIRCRAFT TO ITS WHOLLY-OWNED DOMESTIC SUBSIDIARY, CRUZEIRO DO SUL. (COMMENT: VARIG COULD NOT ADD MORE DOMESTIC FLIGHTS BECAUSE OF RECENT GOB REGULATIONS WHICH PREVENT IT FROM OFFERING MORE THAN 47 PERCENT OF TOTAL NUMBER OF SEATS AVAILABLE ON DOMESTIC ROUTES.

3. VARIG'S TOTAL EARNINGS ARE SUBSTANTIALLY HIGHER IN 1976 OVER 1975. THIS WAS ACHIEVED, HOWEVER, AT THE COST OF REDUCING THE NUMBER OF INTERNATIONAL FLIGHTS WHICH PRESUMABLY PRODUCED CONSIDERABLE HARD CURRENCY REVENUES. (COMMENT: VARIG WAS REPORTED IN MARCH 20 PRESS TO BE EARNING DOLS 1 MILLION A DAY IN FOREIGN EXCHANGE). HOWEVER, VARIG'S SCHEDULING REMAINS HEAVILY WEIGHTED IN FAVOR OF INTERNATIONAL FLIGHTS (DOMESTIC RPK'S INCREASED 16.3 PERCENT AS INTERNATIONAL RPK'S FELL 2.4 PERCENT, YET COMBINED INCREASE IN RPK'S WAS ONLY 2.3 PERCENT). LORENZ PROVIDED PROFIT FIGURES FOR VARIG AND OTHER BRAZILIAN AIRLINES WHICH WE WILL FORWARD UNDER COVER OF AN AIRGRAM.

4. LORENZ STATED THAT NEITHER VARIG NOR CRUZEIRO HAD PLANS TO PURCHASE ANY AIRCRAFT IN 1977. HOWEVER, HE IS NOW PREPARING FORECAST OF AIRCRAFT NEEDS FOR 1978 FOR PRESENTATION TO BOARD OF DIRECTORS (VARIG ONLY) IN NEXT 30-45 DAYS. HE PREDICTED THAT PURCHASE RECOMMENDATION WOULD BE MADE TO SATISFY EXPECTED DOMESTIC GROWTH. HE EXPECTED VARIG WOULD HAVE TO SPEND IN NEIGHBORHOOD OF DOLS 50 MILLION IN 1978 FOR NEW AIRCRAFT. HIS EXPECTATION WAS THAT VARIG WOULD ORDER TWO TO THREE STRETCH BOEING 727'S OR ONE TO TWO A-300 AIRBUSES. HE FRANKLY ADMITTED THAT THE AIRBUS WAS NOT AS SUITABLE FOR DOMESTIC USE BECAUSE OF WEIGHT LIMITATIONS AT MOST DOMESTIC AIRPORTS. LORENZ STRESSED TENTATIVE NATURE OF THESE PROJECTED AIRCRAFT NEEDS. CRIMMINS

NOTE BY OC/T: BRASILIA 2285, #AS RECEIVED.

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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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